

The Treasury

Letters of Expectations Information Release

September 2020

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Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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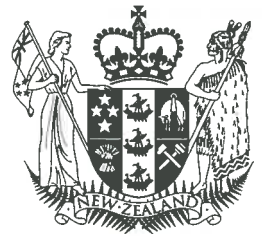
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Mr Rodger Finlay
Chair
New Zealand Post Limited
[23]

Dear Rodger

2020/21 SHAREHOLDER EXPECTATIONS FOR NEW ZEALAND POST LIMITED

I am writing on behalf of shareholding Ministers to outline the matters that we expect the Board of New Zealand Post Limited (NZ Post) to address in the business planning process for the 2020/21 financial year.

The Government remains committed to resolving key long term challenges facing the country including sustainable and inclusive economic development, supporting thriving and sustainable regions, preserving our natural capital, particularly in view of climate change, leveraging technology to boost productivity and a fair society for all New Zealanders.

Ministers expect that the boards of entities that comprise the Crown's commercial portfolio will support the Government to resolve these challenges by continuing to maximise the value of the portfolio through improved financial performance and effective capital management.

This letter contains the following information:

- Ministers' specific expectations for NZ Post;
- general expectations for the Crown's commercial portfolio; and
- the timeline for the 2020/21 business planning process and governance information (Annex 1).

Entity specific expectations

Parcel operations and associated investment

[25]

Ministers are supportive of NZ Post investing in its parcel operations to better position the business for changes in technology, volumes, consumer demands and competition. In doing so we expect the Board to carefully consider investments, and oversee that NZ Post can execute investments to plan while remaining a financially sustainable business for the foreseeable future.

Ministers support NZ Post investing in its parcel operations, so long as it does not impact NZ Post's ability to deliver mail service standards outlined in the Deed of Understanding (the Deed), the required funding is within NZ Post's internal capacity, and it has a strong and evidenced long-term commercial proposition.

[25]

Mail operations

Ministers recognise the value of the nationwide mail service that NZ Post provides to New Zealanders. We appreciate the challenges NZ Post has in bringing the mail business to a commercially viable position under the current service standards as set out in the Deed between the Crown and NZ Post.

Regarding mail operations, Ministers expect NZ Post to:

- a continue to engage with the Ministry of Business, Innovation and Employment and the Treasury to enable the Government to understand the nature and extent of the public benefits provided by the national mail network and the costs of providing a nationwide mail service;
- b continue to drive efficiency in its mail operations to minimise losses while managing the quality of the service provided; and
- c signal, at an early stage:
 - i. any significant risks to NZ Post's ability to maintain the agreed service levels set out in the Deed and follow indicated pricing paths; and
 - ii. any significant, unfavourable impacts on users or the market arising from any changes to pricing paths (with the Government consulted prior to any deviation from the indicated pricing path).

Retail Network

Ministers understand the majority of NZ Post's 976 corporate-owned branches have now been transitioned to agency outlets with partner businesses, with most of the remaining stores to be transitioned over the 2020 calendar year.

Ministers expect that NZ Post will:

- a continue to manage any impacts on employees, consumers, and communities as it transitions the remaining corporate stores to agency outlets,
- b adequately communicate retail outlet changes to the public before branches are closed, and
- c manage the quality of postal services provided by third-party agency businesses across its retail network.

Kiwi Group Holdings (KGH)

We wrote to you in December 2018 advising that Ministers expected NZ Post to preserve its majority shareholding in KGH, and to appropriately and actively monitor its interest in KGH to maximise the value of the investment to the Crown.

In responding through the Strategic Issues letter, the then Acting Chair of NZ Post acknowledged this expectation [37]

[37]

[25,37]

[31,34]

We expect that, whenever KGH seeks additional capital from its shareholders, NZ Post will thoroughly assess any investment cases for additional investment in KGH and assess whether they meet the company's commercial requirements for investment. [34,37]

We further expect that NZ Post will advise KGH of the expectations Ministers have of NZ Post in respect of its KGH shareholding; that Ministers expect companies capitalised with public money to be cognisant of the needs of New Zealanders as they develop and implement their business strategies, and that KGH will relay these messages to its subsidiary companies.

General expectations

Although some of the general expectations are highlighted below, the full expectations for the Crown's commercial portfolio companies are contained in the Owner's Expectation Manual (OEM). The OEM, including updates, can be found on the Treasury's website: <https://treasury.govt.nz/publications/guide/owners-expectations-manual>.

Ministers expect that both directors and management of the Crown companies will be familiar with the OEM to ensure shareholder expectations are being met. Attached to this letter (Annex 1), is the timeline for the 2020/21 business planning process and key milestones.

Dividends

Ministers expect positive business performance to result in dividend payments, and that an appropriate balance is maintained between dividends and reinvestment. Our preference is for dividends over new investment.

A statement of the principles adopted by the Board in determining the annual dividend is required to be disclosed in the Statement of Corporate Intent (SCI).

Shareholding Ministers will be highly focused on the principles adopted by the Board to determine the annual dividend; in particular, the relationship between operating cash flow, sustaining capital expenditure, discretionary capital expenditure and dividends paid to shareholders.

Capital structure

Ministers expect that the Board will periodically review the capital structure of the entity to ensure that it is:

- a appropriate for the entity; and
- b any borrowing is maintained at a prudent level.

Entities are expected to return any surplus capital to the Crown so that it may be used to fund other Crown priorities.

Commercial valuations

Ministers place significant reliance on the Board's estimate of the entity's commercial value. We expect these valuations to be robust, and either prepared or reviewed independently, where appropriate. The review should include the reviewer's view of key assumptions included in the model. Guidance on the commercial preparation and disclosure is provided in Annex 2 of the OEM.

Wellbeing focus

Ministers expect entities to be cognisant of the Government's focus on wellbeing. We are supportive of the reporting frameworks being adopted, to varying degrees, across the Crown's commercial entities (such as Integrated Reporting), which are increasingly being used by companies internationally.

Executive pay

Ministers acknowledge that it is the board's role to set the executive team's remuneration. We expect that the remuneration will be appropriately linked to performance, and set at a level sufficient to attract and retain the necessary skills to enable Crown owned companies to operate as successful businesses and to be as profitable and efficient as comparable businesses that are not owned by the Crown.

Ministers are, however, also mindful of the Government's focus on raising pay levels for those on low and middle incomes. To this end, we expect boards to take a conservative approach with respect to executive remuneration and to have robust processes in place to support, and publicly justify, the decisions made. As previously communicated, shareholding Ministers will be focused on the transparency of executive remuneration, and we expect to see this reflected in your entity's half-year report (if applicable), and then in your annual report thereafter. Further disclosure in subsequent half-year reports (if applicable) is not required.

Support diversity

Consistent with Government support for increased diversity and gender balance on boards, entities are encouraged to support diversity and inclusion in the workplace and in leadership.

Governance – board evaluations

Board evaluations help boards improve performance and contribute to advice to shareholding Ministers on board composition. A full, independent board evaluation is expected to be undertaken at least every three years, with a more limited interim evaluation between those times. Information should also be provided on investment in director development.

No surprises

Ministers expect to be informed well in advance of any material or significant events relating to the entity, whether positive or negative. Examples of matters that could fall within the 'no surprises' policy could include, but are not limited to: any risk to financial forecasts, imminent media coverage of any activities that could attract critical media comment or on which shareholding Ministers could be asked to express a view.

In particular, companies should inform Ministers' offices before the announcement of all financial results, and before companies appear in front of select committees.

Engagement

Your Treasury relationship managers will be in contact shortly after you receive this letter to discuss Ministers' expectations in more detail. If you have any questions please contact Madeleine Lock (on ^[39]). Alternatively you can contact Shelley Hollingsworth, Manager Commercial Performance (on ^[39]).

Yours sincerely

Hon Shane Jones
Associate Minister for State Owned Enterprises
on behalf of shareholding Ministers

cc: Mr David Walsh, CEO, New Zealand Post, ^[39]

Annex 1

Timetable for the Business Planning Process for 2020/21

Table 1: Summary timetable for the Business Planning Process

<i>Due by</i>	<i>Key Action</i>
January / February	The Treasury to discuss the LOE with the Chair
Thursday, 27 February	Board sends Strategic Issues letter to Ministers
Thursday, 27 February	Board provides Post Investment Reviews to the Treasury, if applicable
Tuesday, 28 April	Board submits draft SCI and business plan
Friday, 29 May	Board provides advice on: <ul style="list-style-type: none"> • whether special fees are sought for 2020/21; • the professional development spend in 2019/20 and the proposed professional development budget for 2020/21; and • whether an evaluation of its performance in the past 12 months has taken place, what process was used and the outcomes of the evaluation.
Friday, 26 June	Board delivers final SCI to shareholding Ministers
As soon as practicable after delivery of the final SCI to Ministers	Company to publish SCI on its website

All entities are expected to provide shareholding Ministers with a **Strategic Issues letter**, by **Thursday, 27 February 2020** in response to the LOE. Should your company wish to engage with shareholding Ministers to seek clarification around their expectations, we would ask that you advise the Treasury as early as possible of such intentions.

Entities are expected to provide shareholding Ministers with a draft SCI and Business Plan, consistent with the expectations as detailed in this letter, by no later than **Tuesday, 28 April 2020**.

The final SCI should be delivered to shareholding Ministers on or before **Friday, 26 June 2020**.

Shareholding Ministers should be alerted as soon as possible if any of these deadlines cannot be met.

Further guidance on the timetable is contained in section 5.6.4 of the OEM.